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C O N F I D E N T I A L SECTION 01 OF 03 ASTANA 001445

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SUBJECT: KAZAKHSTAN: PRIME MINISTER BRIEFS SPECIAL ENVOY
MORNINGSTAR ON ENERGY, ECONOMY

REF: A. ASTANA 1365

[1](#)B. ASTANA 1438

Classified By: Ambassador Richard E. Hoagland, 1.4 (b), (d)

[1](#)1. (C) SUMMARY: On August 26, Special Envoy for Eurasian Energy Richard M. Morningstar met with Prime Minister Karim Masimov to discuss economic and energy security issues, including oil and gas export routes from Central Asia, the September 14 Caspian Sea Summit in Aktau, the influence of Russia and China in the region, and early signs of Kazakhstan,s economic recovery. Masimov said Russian President Dmitry Medvedev,s August 17 speech on Caspian energy issues &helped Medvedev solve some internal issues and was not aimed at an external audience.⁸ Masimov also mentioned that former Vice President Cheney has been invited to Kazakhstan,s Energy Forum on September 24, but he has not yet confirmed his participation. END SUMMARY.

[1](#)2. (SBU) Meeting participants: Prime Minister Masimov, Deputy Foreign Minister Konstantin Zhigalov, Arman Sapargaliyev from the Ministry of Foreign Affairs, and a note taker represented Kazakhstan. Special Envoy Morningstar was joined by the Ambassador, Senior Advisor Dan Stein, and Energy Officer (note taker).

WELCOME BACK

[1](#)3. (SBU) Masimov greeted SE Morningstar with a broad smile and a hearty handshake. He recalled that SE Morningstar had accompanied Under Secretary Burns to Astana on July 10 and said, &Welcome back! You should visit us every five or six weeks.⁸ An official photographer and video cameraman recorded the first five minutes of the meeting. When SE Morningstar reported that he had had a series of excellent meetings with government officials on energy issues, Masimov replied, &I,m very pleased. I told them that they should be very open with you.⁸

EXPORT DIVERSIFICATION CRITICAL TO KAZAKHSTAN

[1](#)4. (C) Masimov began by stressing the importance of energy

exports to Kazakhstan. &Without free transportation (of hydrocarbons) out of Kazakhstan,8 he said, &it would be very difficult for us to survive.8 Masimov stressed the importance to Kazakhstan of secure, diverse, and sustainable sources of transportation, especially during difficult economic times.

CASPIAN SEA SUMMIT AIMED AT INTERNAL AUDIENCE

15. (C) Masimov confirmed that the Caspian Sea Summit will take place in Aktau on September 14 with the expected participation of the presidents of Turkmenistan, Azerbaijan, the Russian Federation, and Kazakhstan. He does not expect any breaking news to come from the gathering, which will focus on energy issues, including transportation. &This is not a major event, and I do not expect a major announcement to come from it,8 he said. &What is important is that people start to talk to each other8 about common problems in the Caspian. When asked how one should read Medvedev,s August 17 speech in Astrakhan on Caspian issues, Masimov replied, &I think with that speech, he solved an internal issue, not external issues.8 When SE Morningstar asked, &Do you mean vis--vis Putin?,8 Masimov smiled and replied, &You said it, I didn,t!8 Masimov added that he believed Medvedev was &marking the Caspian Sea as an issue within his portfolio,8 rather than Putin,s.

PRIME MINISTER SUPPORTS CNG SHIPMENTS ACROSS CASPIAN

16. (C) Masimov drew a deep breath and took a long pause while he considered whether Turkmen gas would ever be

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exported to Europe. &My feeling,8 he said, &is that this is doable, but I don,t think the trans-Caspian pipeline has a future.8 Instead, he suggested that tanker shipments of compressed natural gas (CNG) would be more politically feasible than a trans-Caspian pipeline, and he cited a Department of State study that proposed cross-Caspian CNG shipments. Stein interjected that the technology is still unproven, the costs would be extremely high, and no CNG vessel has yet been built. Still, Masimov seemed undeterred. &These are technical issues that we can solve,8 he said. He asserted that oil tanker shipments from Aktau to Baku have stimulated development of the Kazakhstan Caspian Transportation System and suggested a similar dynamic could occur between Turkmenistan and Azerbaijan on gas exports.

RUSSIAN BUY-IN CRITICAL TO TRANS-CASPIAN GAS EXPORTS

17. (C) Masimov admitted that Russian buy-in would be critical to sending gas from Central Asia westward. &If someone at a very high level,8 he said, &such as President Obama, were to offer Putin a deal, invite him in, and say, Let,s find a way to make this work,, then I believe (trans-Caspian gas exports) would be possible. Putin is in charge of this issue.8 Putin is the decision maker.8 Masimov observed that Russia currently is not buying Turkmen gas, which has had a serious, adverse impact on Turkmenistan,s budget. &This is a huge issue for Turkmenistan,8 he said. &They will have a huge budget deficit by the end of the year.8

CHINESE INVESTMENT ALREADY AT &OPTIMAL LEVEL8

18. (C) On China, Masimov delivered a message similar to the one he gave CODEL Boehner (reftel A): &When the economic crisis started,8 he said, &China was suddenly more active and aggressive. We faced serious liquidity problems, and their assistance was welcome.8 Masimov then struck a cautious note, commenting that China,s involvement in Kazakhstan is a &matter of national security for us.8 He added that the current level of Chinese investment in Kazakhstan has reached an &optimal level. We do not want to see it increase.8 However, Masimov said the government would not oppose partnerships between U.S. energy companies

and Chinese companies. He even offered to raise the issue with Chinese officials when he visits China in October. U.S. energy companies have told Masimov that they are not opposed to sending their oil production to China, but they have no intention of doing so at the moment.

OPTIMISTIC ABOUT THE ECONOMY

¶9. (C) On broader economic issues, Masimov acknowledged that Kazakhstan's economy had been in dire straits earlier this year. We had a huge problem, he said, in our banking sector. We have only now discovered the degree of fraud and mismanagement that was taking place, and we are now suing the shareholders of one of our largest commercial banks. (NOTE: Masimov was referring to BTA Bank. See reftel A. END NOTE). He said the situation in the financial sector has greatly improved since the beginning of the year. He elaborated that the government has successfully restructured the external debt of one large bank (most likely Alliance Bank) and plans to restructure the debt of another large bank (most likely BTA Bank) in September. We have kept the World Bank and IMF fully informed every step of the way, he said, and in October, once we have completed the debt restructuring, we will be more active in our public relations. Masimov reported positive GDP growth of three percent in the second quarter of 2009, compared to the same period last year, and said he expects overall positive growth in 2009, compared to 2008.

LOCAL CONTENT NOT AN ISSUE IN PRACTICE

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¶10. (SBU) Special Envoy Morningstar expressed the concerns of U.S. energy companies regarding Kazakhstan's new regulations on local content and hope that the new standards would not adversely affect Kazakhstan's investment climate. Masimov quickly dismissed the issue, shaking his head. All of these concerns are theoretical, he said. In practice, there are no problems.

WTO OR CUSTOMS UNION?

¶11. (C) When asked to clarify whether Kazakhstan will join the World Trade Organization (WTO) or a Customs Union with Russia and Belarus, the Prime Minister did not answer directly. He said that a single negotiating group has now been established, with one representative from each of the three countries, and confirmed that Vice Minister of Industry and Trade Zhanar Aitzhanova will represent Kazakhstan in the negotiations. However, he declined to comment on whether Kazakhstan has officially suspended its WTO bid. (NOTE: During a private dinner at the Ambassador's residence on August 26, Vice Minister of Trade and Industry Zhanar Aitzhanova (protect) was asked about the proposed Customs Union. She rolled her eyes, shook her head, and said, We are under a constant barrage of Russian press releases, pushing Kazakhstan to move forward. Aitzhanova curtailed vacation plans to fly to Moscow on short notice, and appeared frustrated by pressure from Russia to accelerate progress on the Customs Union. END NOTE).

VICE PRESIDENT CHENEY TO VISIT ASTANA?

¶12. (SBU) As the meeting came to a close, Masimov mentioned in passing that he has invited former Vice President Richard Cheney to attend Kazakhstan's Energy Forum on September 24, but he has not yet confirmed his participation. Masimov also asked SE Morningstar to pass along his best regards to SE Holbrooke and said he would be pleased to host him in Astana in the near future.

¶13. (C) COMMENT: Several times during the meeting, the Prime Minister stressed that he was "only expressing his personal opinion," particularly when discussing relations with Russia and China. As the head of the government,

President Nazarbayev's trusted economic counselor, and a respected leader in his own right, his opinion certainly matters a great deal. Masimov's observation that Medvedev's speech on Caspian issues might have been designed to shore up his own political portfolio, rather than assert a new Russian foreign policy in the region, was particularly intriguing. It was also interesting to hear an ethnic Uighur and fluent Mandarin speaker like Masimov insist without a trace of irony that Chinese investment in Kazakhstan had reached an "optimum level" and that a larger Chinese presence in Kazakhstan would be unwelcome. END COMMENT.

¶14. (SBU) Special Envoy Morningstar has not cleared this cable, but he has approved its release.
HOAGLAND